

# REPORT OF THE AUDITOR-GENERAL TO THE LIMPOPO PROVINCIAL LEGISLATURE AND THE COUNCIL ON THE CAPRICORN DISTRICT MUNICIPALITY

## REPORT ON THE FINANCIAL STATEMENTS

### Introduction

1. I have audited the financial statements of the Capricorn District Municipality set out on pages XX to XX, which comprise the statement of financial position as at 30 June 2013, the statement of financial performance, statement of changes in net assets and the cash flow statement for the year then ended, and the notes, comprising a summary of significant accounting policies and other explanatory information.

### Accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and Division of Revenue Act, 2012 (Act No. 5 of 2012) (DoRA) and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor-General's responsibility

3. My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA), the *General Notice* issued in terms thereof and International Standards on Auditing. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified audit opinion.

### Basis of qualification

#### Property, plant and equipment

6. Section 84(1)(f) of the Municipal Structures Act states that the district municipality has the powers and function with regards to municipal roads which form an integral part of a road transport system for the area of the district municipality as a whole. I was unable to obtain sufficient appropriate audit evidence that management has properly accounted for all roads as the municipality did not have systems and procedures in place to assess the rights and ownership thereof. I was unable to confirm the roads infrastructure by alternative means. Consequently, I was unable to determine whether any adjustment to roads infrastructure

stated at R197 776 397 (2012: R205 716 459) in the financial statements was necessary.

#### **Contingent liabilities**

7. The municipality has not disclosed a contingent liability in respect of the uncertainties arising from the dispute declared by the unions and the pending litigation regarding the wage curve agreement. I was unable to confirm the contingent liabilities by alternative means. Consequently, I am unable to determine whether any adjustments to contingent liability stated at R 20 922 589 (2012: R18 353 107) in the financial statements was necessary.

#### **Revenue**

8. During 2012 I was unable to obtain sufficient appropriate audit evidence about service charges. The collection of revenue from service charges has been outsourced to selected local municipalities within the district. I was unable to confirm the revenue by alternative means. Consequently I was unable to determine whether any adjustment to service charges amounting to R34 831 377 was necessary. My audit opinion on the financial statements for the period ended 30 June 2012 was modified accordingly. My opinion on the current period's financial statements is also modified because of the possible effect of this matter on the comparability of the current period's figures.
9. The collection of revenue from service charge and the resulting interest from the debtors has been outsourced to selected local municipalities within the district. The municipality could not provide appropriate supporting documentation for the aforementioned amounts. The municipality's records did not permit the application of alternative procedures regarding the amounts. Consequently I was unable to determine whether any adjustment relating to other income and interest earned on outstanding receivables amounting to R29 035 011 and R5 443 619 respectively (2012: R60 360 788 and R4 160 241) in the financial statements were necessary.

#### **Trade and other receivables**

10. I was unable to determine the effect of my findings on revenues as stated above on trade and other receivables from service charges. The municipality's records did not permit the application alternative procedures regarding the amount. Consequently I was unable to determine whether any adjustment relating to accounts receivable stated at R7 821 702 (2012:R33 857 657) in the financial statements was necessary.
11. I was unable to obtain sufficient appropriate audit evidence for the provision for doubtful debt as sufficient appropriate audit evidence could not be provided by the municipality. I was unable to confirm the amounts by alternative means. Consequently I was unable to determine whether any adjustment relating to the provision for doubtful debts amounting to R148 051 313 (2012: R88 889 598) respectively in the financial statements were necessary

#### **Expenditure**

12. I was unable to obtain sufficient appropriate audit evidence for commission expenses incurred for water related services and debt impairment as sufficient appropriate audit evidence could not be provided by the municipality. I was unable to confirm the amounts by alternative means. Consequently I was unable to determine whether any adjustment relating to commission expenses and debt impairment stated at R9 044 006 and R52 539 917 (2012: R38 987 532 and R 59 375 441) respectively in the financial statements were necessary.

#### **Trade and other payables**

13. I was unable to determine the effect of my finding on expenditure as stated above on trade and other payables arising from the commission expense. The municipality's records did not permit the application alternative procedures regarding the amount. Consequently I was unable to

determine whether any adjustment relating to trade and other payables stated at R49 518 813 (2012:R121 257 039) in the financial statements was necessary

#### **Value Added Tax (VAT)**

14. I was unable to determine the effect on VAT arising from the VAT on transactions with local municipalities for water related services. The municipality could not provide appropriate supporting documentation for the amount. Consequently I was unable to determine whether any adjustment relating to VAT receivable stated at R26 616 305 (2012: R 3 971 057) in the financial statements was necessary

#### **Opinion**

15. In my opinion, except for the possible effects of the matters described in the Basis for qualified opinion paragraphs, the financial statements present fairly, in all material respects, the financial position of the Capricorn District Municipality as at 30 June 2013 and its financial performance and cash flows for the year then ended, in accordance with SA Standards of GRAP and the requirements of the MFMA and DoRA.

#### **Emphasis of matter**

I draw attention to the matters below. My opinion is not modified in respect of these matters.

#### **Restatement of corresponding figures**

16. As disclosed in note 32 to the financial statements, the corresponding figures for 30 June 2012 have been restated as a result of an error discovered during 2013 in the financial statements of the Capricorn District municipality at, and for the year ended, 30 June 2012.

#### **Material underspending of the budget and conditional grants**

17. As disclosed in Annexure E to the financial statements, the municipality has materially underspent their budget to the amount of R 58 762 629. As a consequence, the municipality has not achieved all of its objectives in the infrastructure services department .
18. With reference to note 11 to the financial statements, the municipality materially underspent its conditional grants for the year under review by R112 862 083. This was mainly due to late registration of projects on Municipal Infrastructure Grant at the Department of Cooperative Governance

#### **Irregular expenditure**

19. As disclosed in note 33.2 to the annual financial statements, the municipality has incurred irregular expenditure to the amount of R22 979 167 due to non-adherence to the supply chain legislation and policy.

#### **Unauthorised expenditure**

20. As disclosed in note 33.1 to the annual financial statements, the municipality has incurred unauthorised expenditure to the amount of R18 058 547 due to the overspending of budget votes.

#### **Additional matter**

I draw attention to the matter below. My opinion is not modified in respect of this matter.

#### **Unaudited supplementary schedules**

21. The supplementary information set out on pages XX to XX does not form part of the financial statements and is presented as additional information. I have not audited these schedules and, accordingly, I do not express an opinion thereon.

## REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

22. In accordance with the PAA and the *General Notice* issued in terms thereof, I report the following findings relevant to performance against predetermined objectives, compliance with laws and regulations and internal control, but not for the purpose of expressing an opinion.

### Predetermined objectives

23. I performed procedures to obtain evidence about the usefulness and reliability of the information in the annual performance report as set out on pages XX to XX of the annual report.

24. The reported performance against predetermined objectives was evaluated against the overall criteria of usefulness and reliability. The usefulness of information in the annual performance report relates to whether it is presented in accordance with the National Treasury's annual reporting principles and whether the reported performance is consistent with the planned development objectives. The usefulness of information further relates to whether indicators and targets are measurable (i.e. well defined, verifiable, specific, measurable and time bound) and relevant as required by the National Treasury *Framework for managing programme performance information (FMPPi)*.

The reliability of the information in respect of the selected development objectives is assessed to determine whether it adequately reflects the facts (i.e. whether it is valid, accurate and complete).

25. The material findings are as follows:

### **Reliability of information**

26. The National Treasury *FMPPi* requires that institutions should have appropriate systems to collect, collate, verify and store performance information to ensure valid, accurate and complete reporting of actual achievements against planned objectives, indicators and targets.

I was unable to obtain the information and explanations I considered necessary to satisfy myself as to the reliability of information presented with respect to the community services department.

This was due to the fact that the institution could not provide sufficient appropriate evidence in support of the information presented with respect to the development priority and the institution's records not permitting the application of alternative audit procedures.

### **Additional matter**

27. I draw attention to the following matter below. This matter does not have an impact on the predetermined objectives audit findings reported above.

### **Achievement of planned targets**

28. Of the total number of 341 targets planned for the year, 109 of targets were not achieved during the year under review. This represents 32% of total planned targets that were not achieved during the year under review. This was due to under spending of the budget and conditional grants.

### Compliance with laws and regulations

29. I performed procedures to obtain evidence that the entity has complied with applicable laws and regulations regarding financial matters, financial management and other related matters. My findings on material non-compliance with specific matters in key applicable laws and

regulations as set out in the *General Notice* issued in terms of the PAA are as follows:

#### **Strategic planning and performance management**

30. The municipality did not have and maintain effective, efficient and transparent systems of financial and risk management and internal controls as required by section 62(1)(c)(i) of the MFMA.

#### **Budgets**

31. Expenditure was incurred in excess of the limits of the amounts provided for in the votes of the approved budget, in contravention of section 15 of the MFMA.

#### **Annual financial statements, performance and annual reports**

32. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the MFMA.

Material misstatements of liabilities, expenditure and disclosure items identified by the auditors in the submitted financial statements were subsequently corrected and the supporting records were provided subsequently, but the uncorrected material misstatements and supporting records that could not be provided resulted in the financial statements receiving a qualified audit opinion.

#### **Procurement and contract management**

33. Awards were made to providers who are in the service of other state institutions or whose directors/ principal shareholders are in the service of other state institutions, in contravention of MFMA 112(j) and SCM regulations 44. Similar awards were identified in the prior year and no effective steps were taken to prevent or combat the abuse of the SCM process in accordance with SCM regulation 38(1).
34. Sufficient appropriate audit evidence could not be obtained that goods and services of a transaction value above R500 000 were procured by means of inviting competitive bids, as required by SCM regulation 19(a).

#### **Expenditure management**

35. Reasonable steps were not taken to prevent irregular expenditure, as required by section 62(1)(d) of the MFMA.

#### **Asset management and liability management**

36. An effective system of internal control for assets (including an asset register) was not in place, as required by section 63(2)(c) of the MFMA.

#### **Conditional grants**

37. The municipality did not submit project implementation plans to the national department (CoGTA), as required by the Division of Revenue Grant Framework, Gazette No.35399.
38. The municipality did not submit the evaluation of its performance in response of programmes funded by the Municipal Infrastructure Grant to the transferring national officer within two months after the end of the financial year, as required by section 12(5) of the Division of Revenue Act.
39. The municipality did not evaluate its performance in respect of programmes funded by the Municipal Systems Improvement Grant and submit the evaluation to the transferring national officer] within two months after the end of the financial year, as required by section 12(5) of the Division of Revenue Act.
40. The municipality did not submit, within 10 days after the end of each month, its monthly expenditure reports to the national department (CoGTA), as required by the Division of Revenue Grant Framework, Gazette No.35399.

41. The municipality did not comply with the preparations for the next financial year and the 2014/15 financial year as required by section 26 of the DoRA in that projects to be funded from the allocations for the next financial year were not submitted to the national transferring officer.

#### **Consequences management**

42. The condoning of irregular expenditure was not approved by the appropriate relevant authority, in accordance with the requirements of sections 1 and 170 of the MFMA.

#### **Internal control**

43. I considered internal control relevant to my audit of the financial statements, annual performance report and compliance with laws and regulations. The matters reported below under the fundamentals of internal control are limited to the significant deficiencies that resulted in the basis for qualified opinion and the findings on compliance with laws and regulations included in this report.

#### **Leadership**

44. The management has not implemented proper record keeping ensuring that complete, relevant and accurate information is accessible and available to support financial and performance reporting.

#### **Financial and performance management**

45. During previous financial years management did not ensure that adequate controls are implemented at the local municipalities who act as agents on behalf of the district municipality. The local municipalities maintain the accounting system and related controls over the water related transactions and therefore the accuracy and completeness of the water revenue transactions are dependent on the accuracy of the accounting system maintained at the local municipalities.
46. The financial statements contained numerous misstatements that were corrected. This was mainly due to inadequate review of the financial statements.
47. Non-compliance with laws and regulations could have been prevented had compliance been properly reviewed and monitored.

*Auditor-General*  
Polokwane

30 November 2013



AUDITOR - GENERAL  
SOUTH AFRICA

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